INTRODUCTORY STATEMENT

PRESS CONFERENCE

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Frankfurt am Main, 10 June 2021

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of the meeting of the Governing Council, which was also attended by the Commission Executive Vice-President, Mr Dombrovskis.

After the contraction in the first quarter of the year, the euro area economy is gradually reopening as the pandemic situation improves and vaccination campaigns make significant progress. The latest data signal a bounce-back in services activity and ongoing dynamism in manufacturing production. We expect economic activity to accelerate in the second half of this year as further containment measures are lifted. A pick-up in consumer spending, strong global demand and accommodative fiscal and monetary policies will lend crucial support to the recovery. At the same time, uncertainties remain, as the near-term economic outlook continues to depend on the course of the pandemic and on how the economy responds after reopening. Inflation has picked up over recent months, largely on account of base effects, transitory factors and an increase in energy prices. It is expected to rise further in the second half of the year, before declining as temporary factors fade out. Our new staff projections point to a gradual increase in underlying inflation pressures throughout the projection horizon, although the pressures remain subdued in the context of still significant economic slack that will only be absorbed gradually over the projection horizon. Headline inflation is expected to remain below our aim over the projection horizon.

Preserving favourable financing conditions over the pandemic period remains essential to reduce uncertainty and bolster confidence, thereby underpinning economic activity and safeguarding medium-term price stability. Financing conditions for firms and households have remained broadly stable since our monetary policy meeting in March. However, market interest rates have increased further. While partly reflecting improved economic prospects, a sustained rise in market rates could translate into a tightening of wider financing conditions that are relevant for the entire economy. Such a tightening would be premature and would pose a risk to the ongoing economic recovery and the outlook for inflation.

Against this background, the Governing Council decided to confirm its very accommodative monetary policy stance.

We will keep the key ECB interest rates unchanged. We expect them to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2 per cent within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

We will continue to conduct net asset purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of €1,850 billion until at least the end of March 2022 and, in any case, until the Governing Council judges that the coronavirus crisis phase is over. Based on a joint assessment of financing conditions and the inflation outlook, the Governing Council expects net purchases under the PEPP over the coming quarter to continue to be conducted at a significantly higher pace than during the first months of the year.

We will purchase flexibly according to market conditions and with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation. In addition, the flexibility of purchases over time, across asset classes and among jurisdictions will continue to support the smooth transmission of monetary policy. If favourable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full. Equally, the envelope can be recalibrated if required to maintain favourable financing conditions to help counter the negative pandemic shock to the path of inflation.

We will continue to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2023. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Net purchases under our asset purchase programme (APP) will continue at a monthly pace of €20 billion. We continue to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates.

We also intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Finally, we will continue to provide ample liquidity through our refinancing operations. The funding obtained through the third series of targeted longer-term refinancing operations (TLTRO III) plays a crucial role in supporting bank lending to firms and households.

Our measures help to preserve favourable financing conditions for all sectors of the economy, which is needed for a sustained economic recovery and for safeguarding price stability. We will also continue to monitor developments in the exchange rate with regard to their possible implications for the medium-term inflation outlook. We stand ready to adjust all of our instruments, as appropriate, to ensure that inflation moves towards our aim in a sustained manner, in line with our commitment to symmetry.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. In the first quarter of the year, euro area real GDP declined further, by 0.3 per cent, to stand 5.1 per cent below its pre-pandemic level of the fourth quarter of 2019. Business and consumer surveys and high-frequency indicators point to a sizeable improvement in activity in the second quarter of this year.

Business surveys indicate a strong recovery in services activity as infection numbers decline, which will allow a gradual normalisation of high-contact activities. Manufacturing production remains robust, supported by solid global demand, although supply-side bottlenecks could pose some headwinds for industrial activity in the near term. Indicators of consumer confidence are strengthening, suggesting a strong rebound in private consumption in the period ahead. Business investment shows resilience, despite weaker corporate balance sheets and the still uncertain economic outlook.

We expect growth to continue to improve strongly in the second half of 2021 as progress in vaccination campaigns allows a further relaxation of containment measures. Over the medium term, the recovery in the euro area economy is expected to be buoyed by stronger global and domestic demand, as well as by continued support from both monetary policy and fiscal policy.

This assessment is broadly reflected in the baseline scenario of the June 2021 Eurosystem staff macroeconomic projections for the euro area. These projections foresee annual real GDP growth at 4.6 per cent in 2021, 4.7 per cent in 2022 and 2.1 per cent in 2023. Compared with the March 2021 ECB staff macroeconomic projections, the outlook for economic activity has been revised up for 2021 and 2022, while it is unchanged for 2023.

Overall, we see the risks surrounding the euro area growth outlook as broadly balanced. On the one hand, an even stronger recovery could be predicated on brighter prospects for global demand and a faster-than-anticipated reduction in household savings once social and travel restrictions have been lifted. On the other hand, the ongoing pandemic, including the spread of virus mutations, and its implications for economic and financial conditions continue to be sources of downside risk.

According to Eurostat’s flash release, euro area annual inflation increased from 1.3 per cent in March to 1.6 per cent in April and 2.0 per cent in May 2021. This rise was due mainly to a strong increase in energy price inflation, reflecting both sizeable upward base effects as well as month-on-month increases, and, to a lesser extent, a slight increase in non-energy industrial goods inflation. Headline inflation is likely to increase further towards the autumn, reflecting mainly the reversal of the temporary VAT reduction in Germany. Inflation is expected to decline again at the start of next year as temporary factors fade out and global energy prices moderate.

We expect underlying price pressures to increase somewhat this year owing to temporary supply constraints and the recovery in domestic demand. Nevertheless, the price pressures will likely remain subdued overall, in part reflecting low wage pressures, in the context of still significant economic slack, and the appreciation of the euro exchange rate.

Once the impact of the pandemic fades, the unwinding of the high level of slack, supported by accommodative monetary and fiscal policies, will contribute to a gradual increase in underlying inflation over the medium term. Survey-based measures and market-based indicators of longer-term inflation expectations remain at subdued levels, although market-based indicators have continued to increase.

This assessment is broadly reflected in the baseline scenario of the June 2021 Eurosystem staff macroeconomic projections for the euro area, which foresees annual inflation at 1.9 per cent in 2021, 1.5 per cent in 2022 and 1.4 per cent in 2023. Compared with the March 2021 ECB staff macroeconomic projections, the outlook for inflation has been revised up for 2021 and 2022, largely owing to temporary factors and higher energy price inflation. It is unchanged for 2023, as the increase in underlying inflation is largely counterbalanced by an expected decline in energy price inflation. HICP inflation excluding energy and food is projected to increase from 1.1 per cent in 2021 to 1.3 per cent in

2022 and 1.4 per cent in 2023, revised up throughout the projection horizon compared with the March 2021 projection exercise.

Turning to the **monetary analysis**, the annual growth rate of broad money (M3) declined to 9.2 per cent in April 2021, from 10.0 per cent in March and 12.3 per cent in February. The deceleration in March and April was due partly to strong negative base effects as the large inflows in the initial phase of the pandemic crisis dropped out of the annual growth statistics. It also reflects a moderation in shorter-term monetary dynamics, mainly originating from weaker developments in deposits by households and firms in April and lower liquidity needs as the pandemic situation improves. The ongoing asset purchases by the Eurosystem continue to be the largest source of money creation. While also decelerating, the narrow monetary aggregate M1 has remained the main contributor to broad money growth. Its strong contribution is consistent with a still heightened preference for liquidity in the money-holding sector and a low opportunity cost of holding the most liquid forms of money.

The annual growth rate of loans to the private sector declined to 3.2 per cent in April, from 3.6 per cent in March and 4.5 per cent in February. This decline took place amid opposing dynamics in lending to non-financial corporations and to households. The annual growth rate of loans to non-financial corporations fell to 3.2 per cent in April, after 5.3 per cent in March and 7.0 per cent in February. The contraction reflects large negative base effects and some frontloading in loan creation in March relative to April. The annual growth rate of loans to households rose to 3.8 per cent in April, after 3.3 per cent in March and 3.0 per cent in February, supported by solid monthly flows and positive base effects.

Overall, our policy measures, together with the measures adopted by national governments and other European institutions, remain essential to support bank lending conditions and access to financing, in particular for those most affected by the pandemic.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is necessary to support economic activity and the robust convergence of inflation to levels that are below, but close to, 2 per cent over the medium term.

Regarding **fiscal policies**, an ambitious and coordinated fiscal stance remains crucial, as a premature withdrawal of fiscal support would risk weakening the recovery and amplifying the longer-term scarring effects. National fiscal policies should thus continue to provide critical and timely support to the firms and households most exposed to the ongoing pandemic and the associated containment measures. At the same time, fiscal measures should remain temporary and countercyclical, while ensuring that they are sufficiently targeted in nature to address vulnerabilities effectively and to support a swift recovery in the euro area economy. The three safety nets endorsed by the European Council for workers, businesses and governments provide important funding support.

The Governing Council reiterates the key role of the Next Generation EU package. It calls on Member States to deploy the funds productively, accompanied by productivity-enhancing **structural policies**. This would allow the Next Generation EU programme to contribute to a faster, stronger and more uniform recovery and would increase economic resilience as well as the growth potential of Member States’ economies. In doing so, the programme would support the effectiveness of monetary policy in the euro area. Such structural policies are particularly important in improving economic structures and institutions and in accelerating the green and digital transitions.

We are now ready to take your questions.

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I have a question on the meeting: President Lagarde, can you tell us how was the discussion of the Governing Council meeting today; how was the mood as you said also the uncertainties remain, and what prevailed in the discussion as you decided to confirm the very accommodative monetary policy stance?

Lagarde: Well, thank you for that open question because it gives me a chance to tell you a little bit about how this meeting went. Let me start with what would be my take-away of the overall analysis that we conducted, the joint assessment that we had and the conclusion that we reached. I would say a steady hand. And let me drill down a little bit on that. We spent a lot of time looking at the quarterly staff projections and went deep into each and every item of those projections. In conclusion of this work, I could say that we were somewhat more optimistic about the economic outlook than we were three months ago. The latest signal that we are getting signals a strong rebound which is starting with the second quarter and hopefully will be amplified in the third quarter. We took that moderate optimism from the fact that, number 1, we are seeing that the vaccination roll-out has accelerated significantly and is increasingly out-pacing other advanced economies' vaccination roll-out. Second, we are seeing that containment measures are gradually lifted which should lead to a vigorous bounce back in that sector which was most affected, which is the service sector.

When we look at the service PMI, for instance, it is clearly now in expansionary territory. It went up from just marginal 50 in April to now 55.2 in May. Equally, when we look at the sentiment that is regularly published by the Commission we are also seeing a sharp increase in May. Actually [April was] the largest increase that they had ever recorded. We expect private consumption to rise sharply as the containment measures are gradually lifted. So that's good news from the services point of view, which was most affected. When we look at the manufacturing sector, which earlier on has been robust, it continues to be robust. When we look at the Europe PMI manufacturing, it has stabilised at very elevated levels to be at 63.1 in May. We also looked into those supply-side bottlenecks that clearly have an impact in the short term on our inflation, particularly now, but for the short-term outlook as well. That will create some headwinds, certainly.

That's all on the positive front, but we also acknowledged and looked into those uncertainties that we have on the horizon, which have to do with the evolution of the pandemic and how we see little nests of revival based on another kind of variant. We are also dependent on how fast the containment measures will be lifted, particularly for those countries that are most sensitive to the service industry, the activities that are most a factor of social non-distancing. Clearly, if those containment measures are lifted early on – the tourism season, for instance – a lot of the transportation activities will pick up. That's an uncertainty as we look forward. As a result of that, our staff increased their projection for '21/'22 and kept it at the same level in '23. So, it's been revised up.

Then the big job of the Governing Council after that, after it has looked deeply into our projections and what we see in terms of macroeconomic situation, our job is then to look at the financing conditions on the one hand and the inflation outlook on the other hand because we do conduct that joint assessment which we decided back in December, that we confirmed again in March, and which determines our monetary policy reaction. On the financing front, we clearly see broadly stable financing conditions taking together the corporate and the household sector. There is a little bit of an increase in the corporate sector which is clearly attributable to two particular countries; one is the Netherlands, the other one is Germany. This is probably attributable to some tactical approach taken by the banks in those particular countries to take full advantage of the TLTROs' conditions and to make sure that they catch up with the commitments that they have to take under TLTROs.

Overall, absent those particular factors, we see a little bit of tightening – very, very moderate though – but there is a potential that what we observed on the market interest rates actually could pass through or is at risk of passing through to the financing conditions that are applicable to the corporate sector in particular. For the household sector it is not the case because the financing of the household sector is at rock bottom at about a 1.31% interest rate, which has never been so low. So, this is the first part of the joint assessment.

We do the joint assessment, and we look on the other side at inflation. As I said in the Introductory Statement, we are seeing some short-term improvement of the inflation number and our assessment for '21 is 1.9%, which is clearly north of what we had in our last assessment. But we need – and we did that throughout our discussions - we tried to really dissect what is underneath and what is the lasting impact of some of those factors. I think that it's worth reminding ourselves where we were a year ago compared with where we are today, because that's how inflation is calculated; year-on-year. A year ago a lot of activities went down, prices were under downward pressure, clearly, and the down movement that we saw at the time has now – and is being – compensated by an upward movement that we see in many of those prices that went down. A clear example of that is the energy prices, where if you remember, the price of oil and all derivative products went way down and has now recovered. We see what we call a base effect between '20 and '21. This is clearly the case. We will see more of it because there is another base effect that will be attributable to the German VAT. A year ago, 1 July, there was a decrease of VAT in Germany, deliberately, in order to support the economy and sustain demand. This has now been reversed. We will be seeing the base effect in the months to come, which is probably a reason why inflation in some countries, Germany being one, will go north of our forecast for the whole of the euro area. I mentioned earlier on the bottleneck issues which will push certainly production prices up, but what we need to really focus on – and that's what we did – we need to focus on services. Our euro area activities are roughly 60% services. Services is predominantly labour and we need to really dig down into the labour cost, into the wage increases, into the collective bargaining agreements that are reached currently and will be reached hopefully in the future.

In that respect, we don't see much by way of service prices going up. If you look at many of the service industries, prices are not moving much. That is because wages have not increased significantly. We see a little bit of movement, possibly, and we hope that we will see more of it and that more of the price pressures are actually channelled into higher wages. But we are not seeing much of that at the moment, probably because of the slack that we have in the economy. Let's not forget that if you compare with a little more than a year ago, we have 3.2 million more people unemployed. If you take the combination of the unemployed and those that are under furlough schemes, we're talking about 15% of people who are not on the job. These particular aspects were really examined in great detail to understand what is behind inflation, why it will impact significantly 2021, to a lesser extent 2022 because some of the base effects that I have described for you will begin to fade and will not actually have much of an impact in 2023.

But – and that's a but and it's important and we discussed it at length – there is something that is moving a bit and that is core inflation, when you take out energy and food. On that front, there is a slight movement upward, which has now been repeated for a couple of months. That's the reason why our forecast for core inflation has gone up a bit to 1.1 in '21, 1.2 in '22 and 1.4 in '23. We are far away from our ultimate aim; close to but below 2%. And we certainly are not where we would like to be once the pandemic is over. We are seeing some movement there and we will continue to monitor that carefully. For the moment, certainly in headline inflation, due to temporary, specific factors that I have just described and I have no reason to believe that it is going to last through and will be included in a rise in inflation that we would see in our medium-term projection. That leads us to the decision. Sorry if I was a bit long, but I have taken you through our deliberations throughout.

On the pace of the PEPP, so the reference to the first quarter and the policy statement gives you a bit of flexibility. How much fluctuation in weekly buying should markets expect over the coming months, also considering that there's typically less liquidity in the summer?

The second question, if I may: once the PEPP comes to an end next year, inflation will be slowing down again, according to your forecast. At what point do you need to decide on whether to increase buying under the APP or take any other steps to boost inflation over the medium term?

Lagarde: That takes me to the decision that we actually made, which is, as I said, a steady hand. Based on the joint assessment that I have just described, what the Governing Council has decided – as I read in my Introductory Statement – is to expect net purchases over the quarter to continue to be, and I would like to quote the Introductory Statement for you, “to continue to be conducted at a significantly higher pace than during the first months of 2021.” Now, we are going to do that in the next three months according to market conditions, which clearly include seasonality. And we will do that with the core attribute of PEPP, which is flexibility across asset classes, flexibility across time, flexibility across geography, as you know well. That's really what we will be doing. This is done on the basis of, as I said, the quarterly joint assessment that is decided by the Governing Council. Then it's for the Executive Board to actually implement and deliver on the basis of this joint assessment, and according to market conditions including seasonality.

On your second question: I'm afraid you'll be disappointed because I might just very well refer to my Lisbon line. There is no point in losing ourselves in conjecture. It's too early, it's premature, it's unnecessary to discuss those longer-term issues. Those matters have not been discussed by the Governing Council.

I have one question on your comment that a sustained rise in market rates could lead to a tightening. I think the market is trying to find out where this threshold is; what is sustained and which level are you concerned about on average?

My second question would be on the outlook and the strategic review. Is my understanding correct that the strategic review will come first and then you will come up with a time map for the exit from the PEPP?

Lagarde: You're going to be bored with me, but I am going to repeat myself. Any discussion about exit from the PEPP, as you just mentioned, would be premature, it's too early and it will come in due course. Certainly for the moment it's too early and premature, as simple as that. We are in the process of a strategy review. We have been conducting this review for a while. It has been suspended unfortunately because of COVID-19 and the enormous amount of work that just landed on the shoulders of the very same staff that was working on the strategy review. Some would consider it undue long and we are certainly working really hard to complete this process. I hope that we'll be able to give the outcome of the strategy review in the second half of '21. I still stick to that, but anything having to do with PEPP and any kind of transition, exit, whatever you call it, has not been discussed. As I said, it's just too early and premature.

Concerning tightening: we conduct a joint assessment. The commitment that we made, the monetary policy decision that we made in December and then in March, which were both critically important, is to make sure that we preserve favourable financing conditions while also being very attentive to the inflation outlook, with a view to resisting any downward pressure that would not help in returning to the inflation path of the pre-pandemic period. That's what we do and that's how we conduct our monetary policy. I cannot isolate one component. Financing conditions comprise a whole range of indicators from, as I said, financing conditions for corporates, for households, for sovereigns, market interest rates. We take the whole range of financing conditions. We assess that and then we identify the inflation outlook, the various components, the likelihood of our projections, and we come to a monetary policy decision which, as I said, is in a way a steady-hand translation of what we decided in March.

Did anybody at the meeting make the case for a phrase or terminology different than 'significantly higher'? Did they advocate some other option? Was the decision unanimous?

The second question is about the underlying assumptions behind the projections: how did you factor in the Indian or Delta variant? Does your baseline factor in an increase in restrictions in the second half of the year, or do you expect restrictions to be gradually phased out? What are the projections for restrictions on the economy?

Lagarde: The proposal that is made to the Governing Council included the words that I have repeated, which you find in the Introductory Statement, which is the proposal to conduct purchases at a significantly higher pace than during the first months of 2021. There was no alternative wording and there was unanimous support for the Introductory Statement. And there was broad agreement over what was being proposed.

On the baseline and whether or not we take into account alternative variants and evolution of the virus: we will publish later this afternoon our scenarios. We do have the baseline and we also have a scenario that is the mild scenario and a scenario that is an aggravated scenario. It's in those scenarios that you will find some of the hypotheticals that you refer to.

I have two questions for you today. Given that your medium-term inflation forecast for 2023 is unchanged and remains significantly below target, why are you not stepping up the pace of your purchases to achieve that? Or do you not think that increasing the pace of purchases even further would have any effect on inflation and the output gap in the economy?

The second question I have is on: you talked about bottlenecks and supply shortages; presumably given your inflation forecast is for a much lower inflation printout next year, you expect many of those bottlenecks to be cleared up by the end of this year, is that correct?

Lagarde: You're quite right that the inflation forecast, the inflation projection, has been revised upward for '21 and '22 and not for '23, and that's for the reasons that I have explained earlier on. There's a base effect, there are some transitory factors. But there is also – and I have discussed that quite a bit – the movement on core inflation. So we are clearly seeing improvement and that dates back to December because our forecast for the core inflation outlook has been revised gradually, slowly, by 0.1% over the course of the last projection exercises. So I think that's certainly one of the reasons why we believe that the steady hand is actually the right response in the face of these improvements in core inflation, which we will continue to monitor very carefully, added to which you will have noticed as well: the balance of risk which was tilted to the downside in our last projection, is now considered as balanced. That's another signal that the situation is improving.

On your second point: we forecast inflation at 1.9% this year and 1.5% in 2022, and we assume in that respect that some of the bottlenecks that we know of at the moment – which the *Financial Times* has referred to in various articles actually – that some of those bottlenecks will gradually fade out because it is a matter of the supply response. If chips are not being produced in sufficient quantity in a particular part of the world, there will be in the course of time additional factories, additional work processes, put in place and possibly the offer of products is revisited as we know is the case for instance in the automotive industry. So, the assumption is from our perspective that many of those bottlenecks will actually be overridden by the ingenuity of those who produce and those who revisit their supply chain.

I'd like to come back a little bit on the significantly higher pace. You said it was supported unanimously. You didn't quite answer the question about, was the case for a different pace made by any other member; could you tell me that?

The other thing: could you give us your views on the scarring of the economy post-pandemic. Are you more optimistic now that we see the beginning of the rebound that you might have been a few months ago?

Lagarde: On your first point, I said that there was unanimous support for the Introductory Statement. There was debate on the pace of purchases, on some of the analytical aspects of the use of our instruments. That's the reason I use the words ‘broadly agreed’ by the Governing Council. There were, here and there, a couple of diverging views and not unanimous consent across the board. So, I am very transparent and very clear; Introductory Statement: unanimously supported. Some divergence on some particular aspects.

On scarring of the economy: we are still concerned about the scarring that will be left by the pandemic, whether it's in relation to labour in particular. Economists will use the hysteresis reference, where clearly as a result of a change of consumption pattern, a change of supply chains, there will be more and different jobs coming. There will be more people than were already anticipated that will have to get additional training, that will have to adjust to new tools and possibly acquire completely new skillsets. That's one of the reasons why we believe that the Next Generation EU plan is a critical financing element to actually transition into the post-pandemic period and help those that will be most affected by the scarring impact.

My first question relates to inflation: some leading economists have suggested that the pandemic has caused much more structural and fundamental changes to the global economy, similar to what we have seen – in a different way of course – after the financial crisis. They suggest that inflation probably will become a much more persistent problem and inflation will stay on a much higher level than especially not only the ECB but also other central banks suggest and expect at the moment. What do you think of these ideas?

My second question relates to Bitcoin: as you are aware, El Salvador has announced to make Bitcoin now an official currency; are you concerned about this move?

Lagarde: On the inflation having a more persistent impact as a result of the pandemic, I am assuming that you're referring to economists such as Larry Summers, maybe Olivier Blanchard and a few others. I think that their point has more to do with the massive stimulus that has been given by the various plans, including in particular the last Biden plan to be voted, a plan of over $1.8 trillion, and the fact that there might be overheating as a result of that, and therefore inflation that would be higher than what is currently expected. I think that the US economic situation and the euro area economic situation, is a very different story. The two economies are at a different point in the recovery cycle. They start from a completely different base. The fiscal stimuli that have been put in place at least at end of 2020 and beginning of 2021 are of a different magnitude. As a result, whatever is ultimately the characterisation, the longevity of the price upward pressure that would occur in the United States I think is completely different from anything that we will see in the euro area, although of course there will be some spill-over, as I think I have indicated at our last March conference, as a result of the Biden plan, but certainly of too small a magnitude to actually make a huge difference. The pandemic is also a factor of what happens domestically but also what the spill-overs from the global economies will have on a domestic economy, and we will be very attentive and we will look into that as we look carefully at the exchange rates as well.

On your second point: I'm no longer familiar with the situation in El Salvador. I know that it's a country that is under an IMF programme. I think the issue of having a dual tender in a particular economy is a difficult one and that certainly does not change our approach to crypto-assets and to the regulation, supervision and proper classification that they should be under in order to avoid misinformation and misleading representations.

I would like to know if there was some divergence, too, regarding the balance of risks: did any member feel like it should be tilted to the downside or to the upside and not balanced?

Lagarde: As I have said, all the key points that are in the Introductory Statement that I have read to you have been agreed and have been seen as acceptable by all members. We did debate. This is the beauty of us being together. We did debate whether it was right to actually move from this slight downside risk that we had back in March to this more balanced assessment – to this assessment of more balanced risks. There was general consensus around that.

One second question, if I may. It's about the digital euro: I would like to know if we are going to hear some news in July that the market is expecting, or it will be in the monetary press conference, or maybe in another press conference.

Lagarde: Well, you will definitely hear about the decision that will be made by the Governing Council concerning the digital euro, but I just would like to warn you in advance that this is not the final goal. My colleague and board member Fabio Panetta has explained that very, very clearly. Mid-July, the Governing Council will approve to go ahead into an exploration phase that will include multiple aspects from technology to privacy to inclusion, and everything in between. It's not as if the decision was final and made. Exploring all these matters will actually take a lot of effort, a lot of digging and will bring together the whole Eurosystem because it obviously involves all the NCBs around the ECB on this matter. You will obviously hear about it, but all I am trying to say is; let's not assume that we are jumping to conclusions. This decision will be; do we explore further or do we not spend much more resources on this project?

You just said that the decision on the pace of purchases was broadly agreed. Could you perhaps sketch out a little bit how that discussion went also from the point of view of those who were not in the majority, so the dissidents?

Secondly, if I may: US inflation just came in at 5%, which is high and also higher than expected; do you view a risk or a possibility that US inflation will trickle through to the eurozone?

Lagarde: As I said, the Governing Council conducted this joint assessment of the financing conditions against the background of the inflation outlook, and then the decision was made to continue to purchase at a significantly higher level than during the first few months of [the year]. As I said, there was some debate about that because obviously we had to analyse both the financing conditions and the inflation to lead us to the decision that was made. The decision is very clear and straightforward and everything that is actually embedded in that Introductory Statement was supported.

I wondered if you saw any risks from this very aggressive monetary stimulus on both sides of the Atlantic. You see housing prices going up. Do you see any longer-term risks emerging?

Secondly, maybe on the US comparison: you said that it seems like you're watching quite closely what's going on there; do you expect a longer period of divergence between the ECB and the Fed?

Lagarde: Concerning your first question: what we always do when we make a monetary policy decision is to assess the effectiveness, the efficiency and the proportionality of our measures. As a result of that, we have to look into the potential side-effects or the real side-effects. As far as we're concerned, for the moment, the benefits that we have from the monetary policy decisions that we have taken going back to the beginning of the pandemic, back in March 2020, up until now, is that it largely outweighs the indirect effects that you are referring to. In relation to some of those risks, there are alternative measures that can be decided either from a macro or from a microprudential point of view or from a fiscal point of view. But all in all, when I look at the counterfactuals, what would it have been? Where would we be had the European Central Bank not taken the decisions that it took, to make sure that we were not going to move from a pandemic situation to a cataclysmic recession situation that we would have had? By doing what we did, we made sure that financing was flowing into the economy and that any risks of poor monetary policy transmission would be avoided.

By the same token, we also enabled fiscal policies to be supportive and accommodative as well. It's the joint fiscal and monetary approach that was so critical in order to actually resist what could've been a very dramatic spin into a disastrous economic situation. I think that comparisons are odious, but comparing the US economy as it stands and the euro area economy as it stands, I think it is not in the cards. As we said, we are starting from a different base in terms of inflation. In terms of fiscal stimulus in '21, different story as well. In terms of point in the recovery cycle, not the same place yet, although clearly our vaccination roll-out is accelerating and now clearly outpacing the vaccination cycle that the United States and other advanced economies are going through.

When you look at inflation there are domestic factors, and we have to be attentive to the global situation and how other economies – whether they are advanced, including the largest one, or whether they're emerging economies – how they are faring. That has spill-over effects or that has impacts - but are we at exactly the same point in the cycle? No.

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